EXECUTIVE SUMMARY

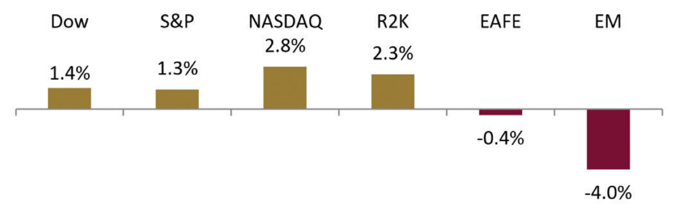
CAPITAL MARKET BRIEFING

JUNE 2015 • FOR PERIOD ENDING MAY 31, 2015

EQUITY MARKETS

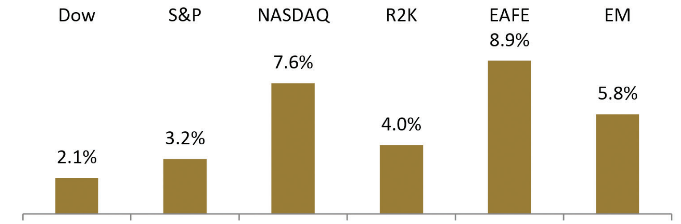
Despite late month weakness, the S&P 500 Index was able to post a modest gain for the month. In fact, the S&P 500 recorded another all-time closing high in the latter part of May. The trend from earlier in the year returned as small capitalization stocks outperformed large caps during the month. The Nasdaq Composite Index had the strongest results for the month and year to date. International equities struggled during the month, as U.S. dollar strength returned after some modest weakness in April. Even with the stronger U.S. dollar, international equity returns have been solid this year for U.S. based investors after negative results in 2014.

MAY 2015



Source: Bloomberg as of 5/31/15

YTD

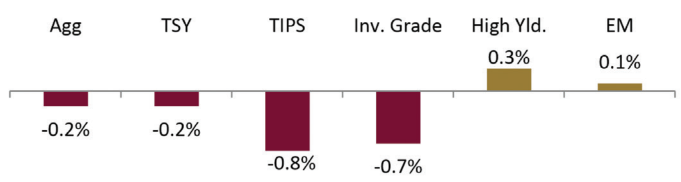


Source: Bloomberg as of 5/31/15

FIXED INCOME MARKETS

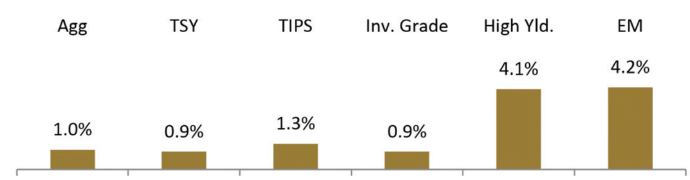
Fixed income returns struggled in May, as the yield on the 10-year U.S. Treasury rose. Investment grade corporate bonds, U.S. Treasuries and TIPS all fell during the month, while high-yield bonds and emerging market debt were able to record only modest gains. Most fixed income sectors remained in positive territory year to date, but some have come under pressure in recent months as yields have moved higher.

MAY 2015



Source: Bloomberg as of 5/31/15

YTD



Source: Bloomberg as of 5/31/15

KEY ECONOMIC THEME

A critical factor for U.S. economic growth is the financial health of the consumer. Clearly, one of the most important determinants of consumer health is whether the job market is strong. The job market has improved since the credit crisis with particular strength over the last year. Non-farm payroll additions were above the 200,000 mark in May for the 14th time in 15 months. Equally as impressive, jobless claims have fallen to multi-year lows. This graph shows the four-week moving average for jobless claims and it hit its lowest (best) level in May since April 2000 – a 15 year low!

INITIAL JOBLESS CLAIMS HIT 15-YEAR LOW IN MAY

Bloomberg as of 5/29/2015. U.S. Initial Jobless Claims 4-Week Moving Average, weekly, seasonally adjusted.

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CAPITAL MARKET BRIEFING - JUNE 2015

Every month in 2015, with the exception of January, has seen the S&P 500 Index achieve a new all-time closing high. May was no different. This widely followed index hit its best historic mark once again in the latter part of May, as the major U.S. equity indices turned in gains for the month.

The yield on the 10-year U.S. Treasury rose sharply in late April and early May, putting pressure on fixed income results for the month and reached its highest closing yield level of the year in early May. The yield on the 10-year U.S. Treasury experienced heightened volatility and remained elevated for the remainder of the month. Overall, bonds returns struggled in May.

The U.S. economy demonstrated signs of stabilization and modest improvements during the month, shedding some of the aftereffects of the poor winter weather and the West Coast dock-workers strike. While it would be an overstatement to say that the economy is experiencing a strong rebound so far in the second quarter after contracting in the first quarter, the U.S. economy is returning to growth.

Heading into the final month of the second quarter, we:

- Expect U.S. economic growth to continue to improve. Transitory issues were at least partly to blame for the contraction of gross domestic product (GDP) in the first quarter, and as those factors fade, we believe the economy will return to moderate growth. We believe the economic contraction in the first quarter was not representative of ongoing economic improvements, and we remain positive on the U.S. economy in 2015.
- Continue to believe the global economy will advance as we progress through the year. Europe has already shown some initial signs of improvement and with the European Central Bank (ECB) still in the early stages of quantitative easing, we anticipate further progress in future quarters. Greece continues to be a concern. Pressure appears to be mounting from many global parties for Greece to find a resolution with its creditors and to not expose global markets and economies to the unknown risk of a Greek default and/or a potential exit from the euro zone. Japan enjoyed its best quarterly growth in a year in the first quarter. China continues to struggle and recorded its weakest annual growth since 2009.
- Maintain our expectation of a September rate hike by the Federal Reserve (Fed). We believe the Fed wants to move away from its near-zero percent policy rate and, with economic readings showing some improvement and core inflation data also turning modestly higher, the Fed has enough cover to raise rates before the end of the year. However, ongoing economic conditions do little to argue for materially tighter monetary policy; therefore, we expect that subsequent rate hikes will be less frequent than in past cycles and will hinge on economic data.
- Continue to favor stocks over bonds. We also reiterate our expectation of increased volatility, especially as we move closer to the first rate hike by the Fed in nearly a decade. However, we acknowledge volatility has been subdued of late with equities achieving new highs. Valuations have increased and equities have benefited from an extended run without a meaningful correction. While these items do not change our opinion favoring stocks over bonds in the intermediate term, the near term could be a choppier period for investors. Bonds will also likely remain more volatile, and while we expect rates to remain lower for a longer period of time, we believe there will be pressure on rates to inch higher as the Fed approaches and initiates an eventual rate hike.

GROWTH SET TO RETURN IN THE SECOND QUARTER

In our opinion, the contraction in first-quarter GDP was driven in part by transitory issues. The West Coast dock-workers strike during the first part of the quarter slowed deliveries and impacted supply chains, and severe winter weather in parts of the country, also hurt economic growth. These issues are now fading.

To begin the year, manufacturing data has been lackluster, but in May, the Institute for Supply Management's (ISM's) manufacturing index bounced back from its weakest levels since 2013. One component of this index that was particularly encouraging was new orders, which easily achieved its best level of 2015 in May. While the ISM manufacturing index has been rather subdued so far this year, the ISM non-manufacturing index, which covers the much larger service industries in the U.S., has enjoyed solid readings. The May reading for this index was below estimates and at its weakest level since April 2014, but it remained comfortably above the 50 level. Recall that for the ISM indices, readings above 50 signal expansion and those below 50 reflect contraction. (See Graph 1.)

One headwind to economic growth, which we believe could be a longer-term theme, is U.S.-dollar strength. Based on the second reading of first-quarter 2015 GDP, we know net exports subtracted about 1.9 percentage points from growth and more than offset consumer spending, pushing GDP into negative territory. In fact, this was the largest drag caused by net exports to GDP since 1985.[1] (See Graph 2.) A stronger U.S. dollar is one factor hurting exporters, as it makes their products relatively more expensive for international (non-dollar) buyers. However, if the global economy starts to experience better growth, as we expect, more global demand could ensue and, therefore mitigate some of the headwind of the dollar strength.

We believe the longer-term trend will be for the dollar to strengthen as the U.S. moves closer to raising policy rates and much of the rest of the world continues to engage in monetary expansion. After weakening in April and the first half of May, the U.S. dollar resumed its move higher in the latter part of the month. (See Graph 3.)

JOB MARKET – ONGOING IMPROVEMENTS

May non-farm payroll additions recorded the strongest gains of 2015. Payrolls advanced by 280,000 in May, marking the 14th time in 15 months that payroll additions have eclipsed the 200,000 level.[2]

Another labor market measure, which validates job market improvements, is weekly initial jobless claims. This reading tallies the number of people on a weekly basis who are filing for unemployment benefits for the first time and is seen as an indicator of lay-offs occurring. Obviously, for this reading, the lower the number the better, and in May, the four-week moving average of jobless claims was at its lowest (best) level since April 2000. (See Graph 4.)

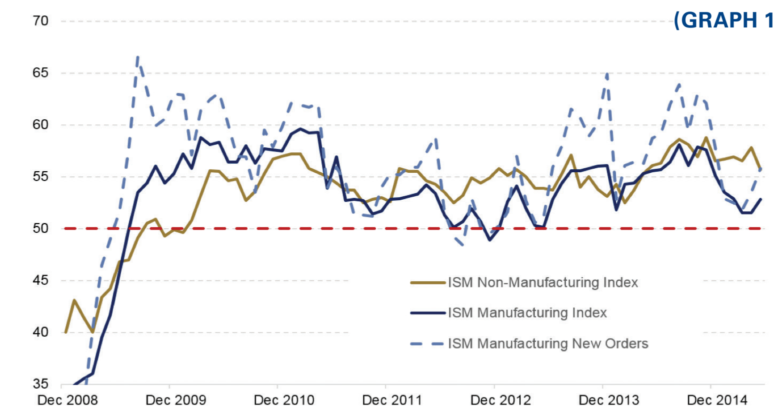
In our opinion, strong job market advancements have taken place over the last year, and we expect ongoing improvements to be made in 2015.

[1] Source: Bloomberg, "Economy Shrank in First Quarter as U.S. Trade Deficit Surged (1)," 5/29/15.

[2] Source: Bloomberg as of 6/5/15, when non-farm payroll data for May was released.

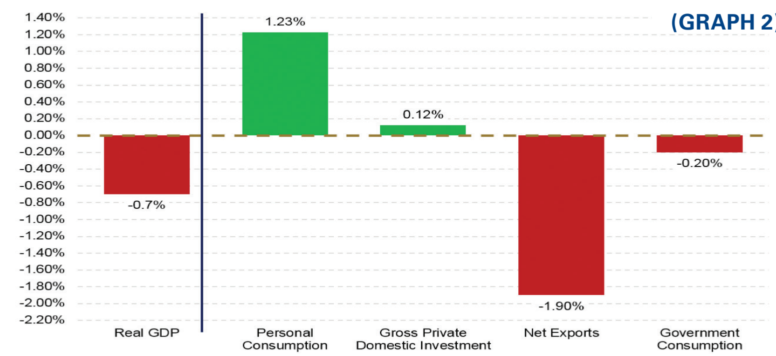
Indices are unmanaged measures of market conditions. Investors cannot invest directly in an index.

SERVICE SECTOR STRONG; DO NEW ORDERS INDICATE MORE STRENGTH?



Bloomberg as of 5/31/2015. Institute for Supply Management's manufacturing index (seasonally adjusted), non-manufacturing index and ISM manufacturing report on business new orders (seasonally adjusted). Readings above 50 denote expansion, while those below 50 indicate contraction.

TRADE GAP WORSENS IN Q1 AMID STRONG U.S. DOLLAR

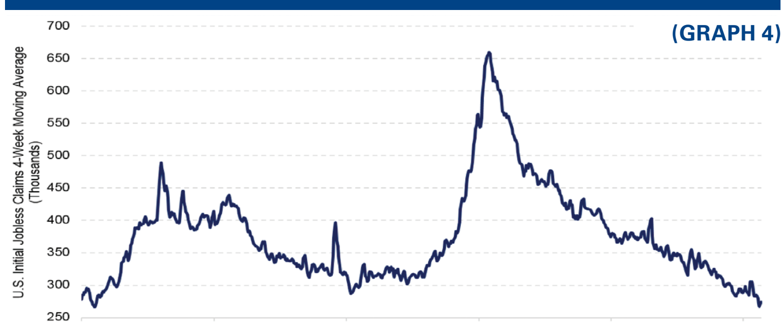


Bloomberg as of 5/29/2015. U.S. Contribution to Change in First Quarter 2015 GDP (Table), second reading. Subject to revision.

U.S. DOLLAR STRENGTH RESUMED IN MAY

Bloomberg as of 5/29/2015. U.S. Dollar Index.

INITIAL JOBLESS CLAIMS HIT 15-YEAR LOW IN MAY



Bloomberg as of 5/29/2015. U.S. Initial Jobless Claims 4-Week Moving Average, weekly, seasonally adjusted.

HOUSING MARKET – ESCAPING WINTER WEAKNESS

Spring brought some encouraging news from the housing market. Housing starts, in particular, can be impacted by poor weather, and this reading fell to its lowest mark since January 2014 in February as many parts of the country were experiencing unusually harsh winters. However, in April housing starts rebounded and hit a multi-year high reflecting a recovery in building activity. Building permits, which are seen as an indicator of upcoming construction activity, also achieved a multi-year high in April, which bodes well for building activity in the months ahead. Finally, new home sales have been above a 500,000 annualized rate in three of the four months so far this year. Prior to 2015, the last time new home sales came in above the 500,000 mark was 2008. (See Graph 5.)

A couple of factors seem to be impacting the housing market in 2015. First, inventories for homes for sale have tightened, resulting in higher home prices.[3] This is a positive for home owners, who enjoy a wealth-effect benefit. However, potential home buyers are finding fewer homes on the market and higher prices, which could be discouraging. Tighter home inventories are likely helping new home sales, which have been strong so far this year.

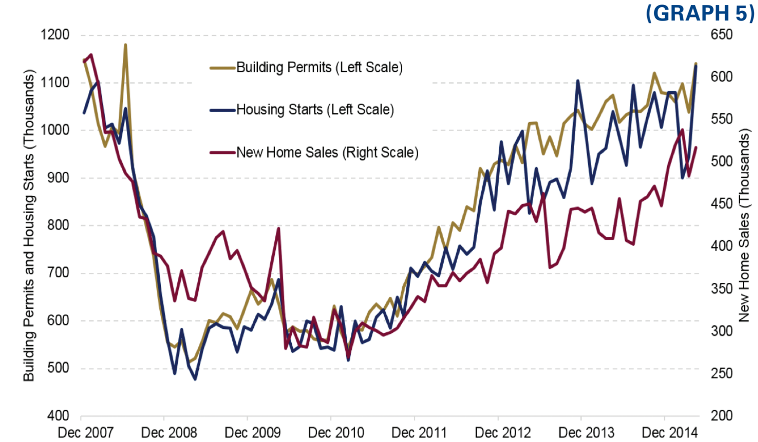
Overall, we continue to believe the housing market will contribute positively to economic growth this year. As the job market becomes stronger and more people can afford to purchase a home, demand should remain healthy. Additionally, interest rates (and therefore mortgage rates) remain low, which should help the housing market by making mortgage costs more affordable.

GLOBAL ECONOMY – MIXED RESULTS

After a tax hike derailed economic growth in Japan during the middle part of last year, the economy returned to growth in the fourth quarter of 2014. First-quarter 2015 marked its second-straight quarter of expansion, and the quarterly gain was the best in a year. Japan continues to engage in monetary accommodation to try to spur growth and healthier levels of inflation. China has taken some steps in recent months to encourage economic growth, such as cutting reserve requirements for banks, but still recorded its weakest annual growth since 2009. (See Graphs 6A & 6B.)

SPRING REBOUND IN HOUSING ACTIVITY

(GRAPH 5)



Bloomberg as of 4/30/2015. Private Housing Authorized by Building Permits by Type total, U.S. New Privately Owned Housing Units Started by Structure total and U.S New One Family Houses Sold annual total, all seasonally adjusted annualized rates.

RECENT ECONOMIC GROWTH FOLLOWING POST-TAX HIKE SLUMP

(GRAPH 6A)

Bloomberg as of 3/31/2015. Japan GDP Real Chained QOQ%, seasonally adjusted. Japan Q1 2015 preliminary reading shown, subject to revision.

WILL SLOWING GROWTH SPUR MORE GOV'T STIMULUS?

(GRAPH 6B)

Bloomberg as of 3/31/2015. China GDP Constant Price YOY%.

[3] Source: Bloomberg, "Sales of New U.S. Homes Climbed More Than Forecast in April (1)," 5/26/15.
Indices are unmanaged measures of market conditions. Investors cannot invest directly in an index.

Manufacturing activity improved in both Japan and China for May. While still off its high from the beginning of the year, a manufacturing index for Japan bounced off its sub-50 reading from April, recording its best reading since February. Manufacturing in China remains subdued, but the May reading was the best of 2015 after another month of very modest improvement. (See Graph 7.)

To begin the year, Europe's economic growth was also encouraging. Preliminary GDP results were reported in May (with some final data coming in by the end of the month), and the overall euro zone economy increased by 0.4%. This was the strongest quarter of growth for this region since the second quarter of 2013. While once the focal point of problems in Europe, Spain recorded its best period of growth in the first quarter since the fourth-quarter of 2007.[4] (See Graph 8.)

We continue to believe global economic growth will move higher through the year as stimulus efforts employed over the last year or so begin to take effect in the various economies. A weak euro and a weak yen seem to be a catalyst for growth in those particular regions, and a government that is more willing to stimulate growth appears to be the current direction in China. We will continue to monitor how the global economy progresses through the year.

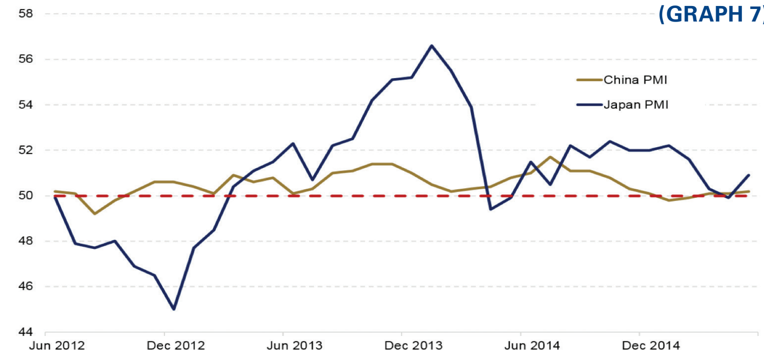
U.S. EQUITIES – LATE MONTH WEAKNESS, BUT STILL POSITIVE RESULTS

The S&P 500 Index dropped over the last couple of days of the month, but was able to hang on to positive gains for May. It is worth noting that the S&P 500 posted another all-time closing high in the latter part of the month. The Nasdaq Composite Index continued its year-to-date lead over the other widely followed U.S. equity indices after it turned in the best results of the U.S. equity indices for the month. Small caps bounced back in May after negative results in April. The Russell 2000 Index, a measure of small-cap stocks, had better relative results than large caps in May (as measured by the S&P 500) and resumed its year-to-date advantage over large caps.

Investment style had little impact on returns in 2014, but the gap in 2015 widened even further in May when comparing growth and value stocks. After a modest reversal in April, growth stocks resumed their leadership in May as the growth style had a better month than value and recorded about a 460 basis point year-to-date overall advantage. (See Table 1.)

WHILE MODEST, SOME RECENT MANUFACTURING IMPROVEMENT

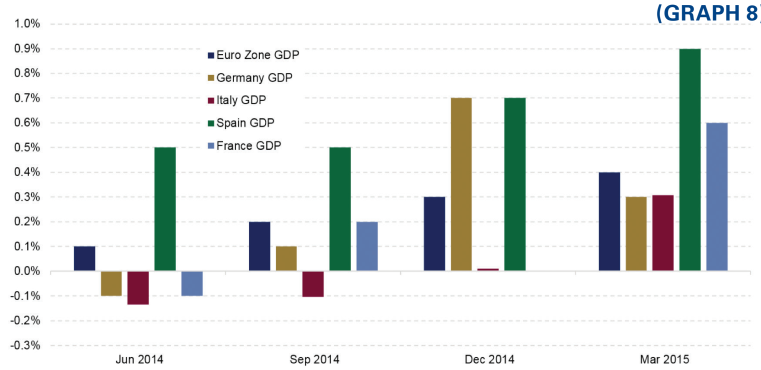
(GRAPH 7)



Bloomberg as of 5/31/2015. Markit/JMMA Japan Manufacturing PMI and China Manufacturing PMI, both seasonally adjusted.

LARGEST EURO ZONE COUNTRIES DRIVE Q1 GROWTH

(GRAPH 8)



Bloomberg as of 3/31/2015. Euro Area Gross Domestic Product Chained 2010 Prices, Germany Gross Domestic Product Chain Linked Pan German, Italy Real Gross Domestic Product, Spain Gross Domestic Product Chained Linked at Constant Prices and France Gross Domestic Product Chain Linked 2010 Prices, all QOQ%, seasonally and working day adjusted, not annualized. France Q1 2015 GDP preliminary reading shown, subject to revision.

U.S. STOCK MARKETS

(TABLE 1)

INDEX TOTAL RETURN (%)	MAY'15	YTD
DOW JONES	1.4	2.1
S&P 500	1.3	3.2
NASDAQ	2.8	7.6
RUSSELL 2000 (SMALL CAP)	2.3	4.0
RUSSELL 3000 GROWTH	1.6	5.9
RUSSELL 3000 VALUE	1.2	1.3

Source: Bloomberg as of 5/31/15

[4] Source: Bloomberg as of 6/1/15. Spain GDP seasonally adjusted chained linked at constant prices, quarter over quarter. The final GDP reading for Spain was released and the first quarter of 2015 was at 0.9% quarter-over-quarter growth. This was the best since the fourth quarter of 2007, which was 0.9% as well.

Indices are unmanaged measures of market conditions. Investors cannot invest directly in an index.

INTERNATIONAL EQUITIES – DOLLAR STRENGTH ONCE AGAIN A HEADWIND

After a reprieve in April with the U.S. dollar weakening against other global currencies, dollar strength resumed in May as shown in Graph 3. This U.S. dollar strength was once again a headwind to U.S.-based investors on international equities as dollar-based returns were weaker than local currency results. For international developed equity markets, U.S. dollar strength actually pushed returns into negative territory compared to positive local currency results. (Unfortunately, dollar returns are what matter for U.S.-based investors.) For emerging markets, U.S. dollar strength exacerbated some of the already weakest global equity results in May.

On a positive note, developed international equity returns are still among the strongest of any asset category so far this year. Emerging market equities have had solid gains as well year to date. After lagging in 2014 and turning in negative results, international equities have been a positive contributor to returns in 2015 despite U.S. dollar strength. (See Table 2.)

FIXED INCOME – EUROPEAN YIELDS RISE IN MAY

Most fixed income sectors struggled in May as the yield on the 10-year U.S. Treasury rose. After closing January around 1.64%, its lowest closing level since 2013, the yield on the 10-year U.S. Treasury ended May around 2.12%. This recent higher trend in rates has put pressure on fixed income results. (See Graph 9.) Only the riskier pockets of fixed income gained last month, including high-yield bonds, preferred stocks, and emerging market debt, but even those returns were modest. (See Table 3.)

In May, one of the biggest weak spots in fixed income was global Treasuries. The action in European bonds contributed to this weakness. After dropping to, in some cases, historically low levels earlier in the year, European government bond yields rose sharply in May. For example, Germany's 10-year government bond yield dropped below 0.08% at one point in April, only to reverse and end the month with a yield just under 0.5%. (A significant move on a percentage basis.) Bond yields in Spain and Italy moved higher as well. Greece's government bond yields have been moving higher since last fall as the country deals with its own unique debt issues. So, the increase in Greek bond yields has been occurring for several months compared to other European bonds. (See Graph 10.)

INTERNATIONAL STOCK MARKETS

(TABLE 2)

INDEX TOTAL RETURN (%)*	MAY'15	YTD
MSCI EAFE	**-0.4**	**8.9**
MSCI EAFE (LOCAL CURRENCY)	1.7	14.2
EUROPE ex UK	-0.8	8.4
EUROPE ex UK (LOCAL CURRENCY)	1.1	15.8
MSCI EMERG MKTS	**-4.0**	**5.8**
MSCI EM (LOCAL CURRENCY)	-2.5	8.2

*U.S. Dollar-based gross returns unless labeled local
Source: MSCI Barra via Bloomberg as of 5/31/15

SINCE JANUARY LOW, 10-YR US TREASURY YIELD MOVED HIGHER

(GRAPH 9)

Bloomberg as of 5/29/2015.U.S. Generic Government 10 Year Yield.

FIXED INCOME MARKETS

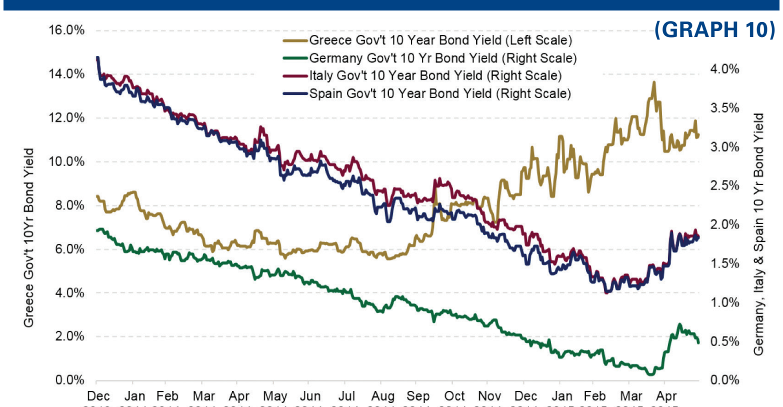
(TABLE 3)

INDEX TOTAL RETURN (%)	MAY'15	YTD
U.S. AGGREGATE	-0.2	1.0
TREASURY	-0.2	0.9
TREASURY (LONG)	-1.6	-0.9
INVESTMENT GR. CORP.	-0.7	0.9
HIGH YIELD CORP.	0.3	4.1
TIPS	-0.8	1.3
GLOBAL TREASURY (X-US)	-3.3	-5.2
EMERGING MKT ($)	0.1	4.2
S&P PREFERRED STOCK	0.3	3.2

Source: Barclays Indices/S&P Preferred via Bloomberg, as of 5/31/15

EURO AREA BOND YIELDS RECENT BOUNCE HIGHER

(GRAPH 10)



Bloomberg as of 5/29/2015. Germany, Italy, Spain and Greece Generic Government 10 Year Bond Yield.

Looking forward to June, Greece owes payments to the International Monetary Fund totaling approximately 1.6 billion euros throughout the month, and it appears the country needs to secure funding to meet those obligations.[5] Yields have risen in recent months, reflecting some elevated financial stress in the country as negotiations with creditors have faltered. We will continue to monitor developments in Greece, but pressure has mounted in recent weeks from the global community for Greece and its creditors to reach an agreement and avoid the unknown of a potential Greek default and/or exit from the euro currency regime.

ALTERNATIVES

(TABLE 4)

INDEX TOTAL RETURN (%)	MAY'15	YTD
REAL ESTATE (FTSE NAREIT)	-0.2	-1.2
COMMODITIES (BLOOMBERG)	-2.7	-3.2
LISTED PRIVATE EQUITY*	2.1	13.2
CURRENCIES**	-3.0	-4.7

Source: Bloomberg, *Red Rocks Global Listed Private Equity Index (USD) Total Return, **Deutsche Bank G10 Currency Future Harvest Index, as of 5/31/15

ALTERNATIVE ASSETS – LISTED PRIVATE EQUITY SHINES

REITs struggled in May as interest rates moved higher. Commodities also dropped last month as the recent rise in oil prices mostly stalled in May, and industrial metals declined. The listed private equity index enjoyed positive returns aided in part by the relatively stronger results of small-cap stocks. The driving factor in the currency markets was the resumption of U.S. dollar strength after it had weakened in April and early May. (See Table 4.)

SUMMARY & OUTLOOK

The U.S. economy seemed to find its footing again after a poor start to the year. Job and housing market data bounced back in the spring and manufacturing in the U.S. and abroad inched higher in May. We believe the majority of issues faced by the U.S. economy in the first quarter were transitory, but we also acknowledge that U.S. dollar strength, and the subsequent negative impact it can have on the trade deficit, might be longer term in nature. This mitigates some of the rebound we expect the U.S. economy to enjoy in the second quarter, but we continue to expect economic growth to return for the remainder of the year. Monetary accommodation is still the path of most central bankers, with the U.S. standing as the clear outlier. The debate continues regarding when the Federal Reserve will announce the first U.S. rate hike in nearly a decade.

Some trends from the beginning of the year that were interrupted in April returned in May. In the U.S., small-cap stocks outperformed large caps once again and U.S. dollar strength resumed. After overcoming dollar strength in the first quarter, international developed market equities failed to make up for this headwind in May. Although international equity results were weaker than U.S. returns during the month, international equities have still contributed positively to returns in 2015. Recent trends in fixed income remained as most bond sectors continued to struggle with yields moving higher. Oil prices stabilized in May, beginning and ending the month right around $60 per barrel.

We remain constructive about the U.S. economy in 2015 and believe global economic growth will also remain positive this year. This supports our underlying opinion favoring stocks over bonds for the intermediate term. We maintain our expectation of higher capital market volatility in the months ahead despite the VIX Index, a measure of equity market volatility, hitting its 2015 low in May. However, with equities near all-time highs, valuations expanding, and a likely rate hike pending in 2015, we believe the near term could be a choppier period for investors.

[5] Source: Bloomberg, "Greek Talks Focus on Deal Within Days as IMF Payments Loom (1)," 6/1/15.

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